QUEENSLAND resources COUNCIL

QRC supplementary submission – CQCN

QCA Declaration Review

Supplementary submission on Draft recommendation

21 June 2019

1 Overview

Following the submission of a draft amending access undertaking by Aurizon Network Pty Ltd (**Aurizon Network**) to the Queensland Competition Authority (**QCA**) on 3 May 2019, the Queensland Resources Council (**QRC**) welcomes the opportunity to provide further comment on the QCA's draft recommendation in relation to the Aurizon Network declaration review (**Draft Recommendation**).

The QRC agrees with the QCA's position in the Draft Recommendation that the use of the Central Queensland Coal Network (**CQCN**) (being the use of a coal system for providing transportation by rail (**Service**)) should be declared.[1]

However, the QRC considers that the access criteria would be satisfied for a period of 20 years (rather than the 15 year period specified in the Draft Recommendation). Accordingly, the QRC submits that the QCA should make a final recommendation to the Minister that the Service be declared for a further 20 year period.

2 Material change in circumstances since prior submission

On 3 May 2019, Aurizon Network reached agreements with customers on a draft amending access undertaking for the CQCN (**UT5 DAAU**) and submitted the UT5 DAAU to the QCA on the same date. Overall, the UT5 DAAU will provide greater commercial and operational certainty for Aurizon Network and for all users of the CQCN. The UT5 DAAU also includes cornerstone provisions that will likely extend beyond the term of the UT5 DAAU, including provisions in relation to capacity, maintenance, asset renewals and expansions. Accordingly, the QRC considers that the UT5 DAAU is relevant to the Aurizon Network declaration review and, on that basis, makes this supplementary submission to the QCA. The QRC understands that Aurizon Network supports the QRC's proposal for a 20 year declaration period.

The customers that signed the agreements with Aurizon Network in relation to the UT5 DAAU represent more than 90% of railed tonnes in the CQCN and include Anglo American, BHP, Coronado, Glencore, Idemitsu, Jellinbah, Kestrel, Middlemount, Peabody, QCoal and Yancoal. These customers have submitted letters to the QCA in support of the UT5 DAAU.

Key features of the UT5 DAAU include:

- extending the term of the access undertaking to ten years (1 July 2017 to 30 June 2027);
- a Weighted Average Cost of Capital (**WACC**) of 5.9% increasing to 6.3% (subject to a reset on 1 July 2023) on completion of specified milestones;
- independent expert determination of existing capacity, re-baselining of capacity, and a mechanism to address existing capacity deficits (if any);
- mechanisms to provide supply chain value through improved supply chain stability;
- more transparent processes for maintenance and asset renewal budgets and strategies;

[1] Draft recommendation, page 5.

- a commitment, in specified circumstances, by Aurizon Network to fund expansions to address any network capacity deficit identified by the independent expert and where the nature of the expansion is agreed with affected end users or determined by the QCA, up to a value of $300 million; and
- a commitment by Aurizon Network to fund up to $30 million annually for expansions to create new capacity where the expansion would benefit more than one access seeker or access holder.

3 Impact of UT5 DAAU on access criteria

3.1 Criterion (a)

The Draft Recommendation concludes, in relation to criterion (a), that access to the Service promotes a material increase in competition in the above-rail haulage market.[2] The QRC remains in agreement with the QCA with respect to this conclusion and considers that competition in the above-rail market will be enhanced by a declaration period of 20 years, as opposed to 15 years.

3.2 Criterion (b)

In relation to criterion (b), the QRC considers, by reasoned conclusion, that the CQCN is likely to be able to meet total foreseeable demand at least cost for a 20 year declaration period.

Draft Recommendation position – 15 year declaration period

In the Draft Recommendation, the QCA's estimate of total foreseeable demand was 260-300mt over the period.[3] The QCA also observed that Aurizon Network's network development plan (**NDP**) outlined expansion options that could more than double the existing capacity of the CQCN.[4] In particular, the QCA noted that the NDP showed existing capacity to be 310mt across the CQCN and possible growth scenarios for up to 630mt.[5]

The QCA acknowledged the QRC's submission that the cost of developing a new facility as an alternative to the CQCN would be around $20 billion and it would not be possible to develop a 90mt facility (ie. a facility that would simply meet the excess demand requirement) at least cost compared to an expansion of the CQCN.[6] The QRC submitted that there are no alternative facilities that could meet excess demand at a lower cost than the CQCN.[7]

Taking these matters into account, the QCA concluded that it would be less costly to incrementally expand the CQCN than develop an alternative facility.[8]

[2] Draft Recommendation, page 45.

[3] Draft Recommendation, page 7.

[4] Draft Recommendation, page 28.

[5] Draft Recommendation, pages 26-27.

[6] Draft Recommendation, page 23. QRC submission dated 30 May 2018, page 13.

[7] Ibid.

[8] Draft Recommendation, pages 26-27.

Reasoned conclusion – 20 year declaration period

The QRC reasons that the CQCN could meet the total foreseeable demand in the market at least cost over a 20 year period on the basis that:

- Aurizon Network, based on its own NDP, has significant scope and a wide range of options to expand the CQCN;
- the capacity that would be delivered if Aurizon Network fully exercised its scope to expand the CQCN would far exceed the capacity required to address the likely increase in total foreseeable demand when assessed over a 20 year period relative to a 15 year period;
- it is likely to be more economical for Aurizon Network to incrementally expand the CQCN than for an alternative facility to be developed; and
- an alternative service provider for the provision of below rail services is unlikely to enter the market given the scale required for a competing service to be commercially viable. .

Predictions about future market conditions

In the Draft Recommendation, the QCA concluded that it could make sufficiently robust predictions about future market conditions over a 15 year declaration period, while also providing an opportunity for review.[9]

The QRC considers that if the QCA was able to reach this conclusion about a 15 year period then it is likely that the QCA would be able to extend those predictions with sufficient certainty for an additional 5 year period.

3.3 Criterion (c)

In relation to criterion (c), the QCA concluded that the CQCN is significant in size and importance to the Queensland economy.[10] The QRC reiterates its strong agreement with this conclusion and considers that this will remain the case over a 20 year declaration period.

3.4 Criterion (d)

In relation to criterion (d), the QCA has made clear that access to the Service, on reasonable terms and conditions, would promote the public interest.[11]

The QRC considers that declaration for a 20 year period provides a level of certainty for users and investors (including Aurizon Network) which is in the broader public interest. Accordingly, it is also in the public interest that the declaration term which is supported by users and Aurizon Network be given appropriate weight.

A 20 year declaration period is also consistent with the economic life of coal mines in Queensland (which is typically 20 to 30 years) during which period access to the CQCN is generally required. A declaration period of 20 years (as opposed to 15 years) provides a level of certainty that will further incentivise long term investment in rail transport infrastructure, coal projects, and coal mines in Queensland.

[9] Draft Recommendation, page 21.

[10] Draft Recommendation, page 48.

[11] Draft Recommendation, page 52.

3.5 20 year declaration period better satisfies the QCA Act

The QRC considers that, in determining the appropriate declaration period, the QCA should weigh each of the relevant factors to identify the declaration period that best serves the object of Part 5 of the QCA Act.

After weighing these factors, the QRC considers that the additional certainty of a 20 year declaration period (which more closely aligns with mine lives and therefore will be more likely to materially impact investment decisions) outweighs any potential costs of the increased declaration period.

4 Conclusion

Overall, the QRC supports the approach taken in the Draft Recommendation but considers, particularly in light of the UT5 DAAU, that a 20 year declaration period will satisfy the access criteria and better meet the object of Part 5 of the QCA Act.

A 20 year declaration period will, in conjunction with the UT5 DAAU, increase the level of certainty for industry and benefit the broader Queensland economy.

It is clear that, under any reasonable estimate of demand over a 20 year period, the CQCN will be able to meet demand at least cost and will promote a material increase in competition in the above-rail market.